State Senator Robert Garton
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General Assembly Budget Ticker

Here are some details on state revenue intake for the month of January, as released by the State Budget Agency recently:

Total revenues:
- Up $39.6 million (4.1 percent) over January last year
- $82.5 million (7.6 percent) below forecast

Sales tax:
- Up $68.4 million (19.0 percent) above January last year
- $37 million below forecast

Individual income tax:
- Down $8.2 million (1.9 percent) below January last year
- $15.8 million below forecast

Corporate income tax:
- Down $20.7 million (61.4 percent) below January last year
- $13.4 million below forecast

Riverboat (not previously included in the Property Tax Replacement Fund):
- Added $34.5 million to the bottom line
- $0.6 million below forecast

Other:
- Down $34.4 million (27.7 percent) below January last year
- $15.7 million below forecast

Cigarette tax:
- Up $20.2 million (531.6 percent) above January last year
- $2.7 million below forecast

Look here weekly for future updates as the budget debate continues in the General Assembly.

ROBERT GARTON

THIS WEEK IN THE LEGISLATURE

Week 7 February 20, 2003

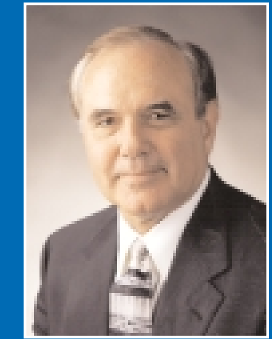
Dear Friends,

In light of recent events world wide, many Hoosiers are wondering what might happen next. In these troubling times, it is a comfort to remember that there are thousands of brave men and women who have sacrificed their personal lives to protect our freedom.

From Indiana alone, over 1,000 troops have been activated to serve in some aspect of the war on terror. Their strength makes each of them a role model to us all. Their display of selflessness and willingness to defend our freedoms deserves the highest praise. Though we are worried of what lies ahead, Hoosiers can take comfort in knowing that such fearless men and women are doing whatever it takes to protect our nation.

We must all remember to keep each of them and their families in our prayers and promote patriotism here at home.

Bob Garton



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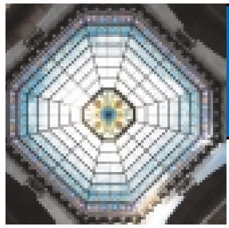

SENATE PASSES BILL TO ADDRESS COUNTY OPTION INCOME TAXES

This week, what could prove to be one of the most important proposals of the session was approved by the full Senate. Senate Bill 166 will improve the mechanism whereby local option income taxes (LOIT) are collected by the state and remitted back to local governmental units.

For those of you unfamiliar with the county taxing options, I'll try to explain this better so that you can understand the impact this proposal could have. Local Option Income Taxes are collected by the state's Department of Revenue. Collections are then distributed by the state to the counties, based on estimates of the counties' shares. Under existing law, the State Budget Agency estimates how much will be collected for each county for a fiscal year and certifies that amount to the county for distribution in the next calendar year.

Local option taxes are assessed a number of ways, varying from county to county, basically depending on how the counties need to use the funding. There are three basic types of county income tax: County Option Income Tax, County Individual Adjusted Gross Income Tax, and County Economic Development Income Tax.

County Option Income Tax (COIT) is the most flexible for counties. Individuals pay the tax if they reside in a county that imposes the tax or if their principal place of business or employment is in a county that imposes the tax. Revenues can be used for budgetary purposes in operating government for the county or civil units, but may also go toward reducing property tax. Twenty five counties in Indiana have elected to impose the tax.

The assessment of County Individual Adjusted Gross Income Tax (CAGIT) is very similar, in that individuals pay if they reside in a county that imposes the tax or have their principal place of business or employment in a county that imposes the tax. The difference is in the use of the funding by the county. Revenues are allocated on a formula basis, and a portion has to go toward the reduction of property taxes. Fifty-four counties in Indiana have elected to impose this tax.

County Economic Development Income Tax (CEDIT) applies when an individual lives in a taxing county. It also applies when an individual maintains a business or works in a taxing county but does not live in a county that imposes a local option income tax. These funds are designated for specific economic development projects, capital improvements, or retirement of bonds. Fifty-five counties in Indiana have elected to impose this tax.

These figures add up to millions of dollars for counties. Currently, distribution amounts are based on estimates. Each year distributions are adjusted up and down based on how far the estimates for prior years were missed. This has created serious budget problems for local units as they try to plug these up and down numbers into their budget process. Additionally, because of the uncertainty of the amounts, state statute requires a three-month estimate of collections be kept in a reserved account for each county. This means county monies are being held back because of the uncertainty factor.

For example, on July 1, 2002, the Budget Agency estimated how much the Revenue Department would receive for each county from July 1, 2002 through June 30, 2003 and certified that amount (after adjustment) to the counties. Actual collections for each county for any year are not known until about 18 months after the year ends. For this reason the Budget Agency adjusts each certified distribution based on whether prior distributions were over or under actual collections.

The problem is that county income tax collections have been dropping. Because of the reporting delay, the state has been distributing too much money to many, but not all, counties. As a result, many counties have negative balances in their accounts. These counties can expect to receive a significant decrease in distributions for the 2004 calendar year versus those in 2003.

Senate Bill 166 was written to change the way the state distributes county income taxes. The bill moves from distributions based on estimates to distributions based on actual collections. The measure would also permit distribution of the three to six-month reserves each county is currently required to maintain.

Under Senate Bill 166, the Indiana Department of Revenue will certify to the counties by August each year the amount received for distribution, based on returns received over the prior 12-month cycle. After the first transition year, this will be an actual amount, not one subject to estimation. Then there will be a correcting adjustment sent in October for further refinement, and in January distributions will be made. For example, money reported on tax returns processed during fiscal year 2003 will be distributed in the 2004 calendar year.

This should make this entire activity much more timely and accurate. During the transition phase from estimates to actual returns, some counties will receive more money than in past years, but counties that have been overpaid will receive less in distributions until the errors are balanced. Due to the lingering effects of inaccurate estimates, I'm certain that a few counties may struggle at first, even though they were overpaid previously. Nonetheless, it will benefit all counties in the long run to have distributions made on actual taxes collected rather than using statewide averages.

Important Dates in the General Assembly

February 27: The last day for committee reports to be filed on Senate Bills

March 3: Second - reading deadline for all Senate Bills

March 4: Third-reading deadline for all Senate Bills

April 29: Legislative session must be concluded, as decreed by state statute.